

2006 Responses to questions asked by the software developers.

I have question regarding the new LA refundable child care credit Wks.

1. When a part year LA return is filed and there are eligible qualified expenses, do we prorate the taxpayer's and spouse's earned income on lines 4 and 5 of the child care credit Wks or do we still use the full federal number?

The earned income should be only for LA sourced income -- the same as the expenses.

I am the Louisiana tax analyst programmer for the Lacerte Software product with Intuit. I have a question regarding RIB 06-017 dated March 7, 2006, Add-Back of Wage deduction for Louisiana Taxpayers.

I see that this deduction will take place on Schedule E, line 5b. However, in that situation, last year you would have been able to take 10% of the federal credit or \$25, whichever is less on Sch G line 4b.

My question is this. If a taxpayer has a federal Work Opportunity Credit (or any other applicable credit), does he take the wage adjustment deduction on Sch E and the credit deduction (10% or \$25) on Sch G? Or does he only get the new wage adjustment on Sch E? The form instructions do not address this situation.

Please advise on the proper treatment.

Here is how the statute reads for the credit for certain fed credits:

B. The tax determined as provided in this Part shall be reduced by the following: a credit for the elderly, a credit for contributions to candidates for public office, an investment credit, a credit for foreign tax, a work incentive credit, jobs credit, and residential energy credits. The amount of these credits shall be the lesser of twenty-five dollars or ten percent of the same credits allowed on the federal income tax return for the same taxable period.

I don't believe that any of the IRC 280(C) credits are the ones listed above. (I could be wrong.) The point is though, you can't have both -- we point that out in the FIT deduction language where we tell the t/p that they can increase their FIT deduction by by the foreign credit claimed on Fed Form 1040 -- however, if they do so, they cannot take the credit for certain fed credits.

I have a question on the Refundable Child Care Credit. LA instructions say that if taxpayer and spouse are married and one of them is not a resident of LA they have the option to file the IT-540 or the IT-540B. Assuming both the taxpayer and spouse have federal earned income, how will this affect the credit in LA.

RIB 07-001 has been reserved to publish the interest rate. The interest rate has not yet been determined, and it is unlikely that the RIB will be published until January, 2007.

Can you please direct me to RIB 07-001 for your 2006 interest rate? When I go to that link on your website, it cannot find the page. I can find all the other Revenue Information Bulletins, just not that one.

RIB 07-001 has been reserved to publish the interest rate. The interest rate has not yet been determined, and it is unlikely that the RIB will be published until January, 2007.

I have a question on the Refundable Child Care Credit. LA instructions say that if taxpayer and spouse are married and one of them is not a resident of LA they have the option to file the IT-540 or the IT-540B. Assuming both the taxpayer and spouse have federal earned income, how will this affect the credit in LA.

If a taxpayer and spouse are married and one of them is not a resident of LA, they will have the option to file IT-540 or IT-540B, whichever is more beneficial to them. The Refundable Child Care Credit is contained in both booklets, as you know. However, the bottom line is that the child care expenses must have been incurred in Louisiana, regardless whether the IT-540 or the IT-540B is filed.

Can you tell me if the 2006 Louisiana E-File Draft Record Layouts is available yet?

If so, can you tell me where can I find it on the web site or can you email it to me?

If not, when do you expect it to be available?

We should have a DRAFT of the generic record layout on the vendors page next week.  
<http://www.revenue.louisiana.gov/sections/vendors/>

I have a question regarding the 2006 LA Nonrefundable child Care Credit Wks, line 1. This line says to enter fed child care credit from line 48 of 1040. Should this number be the number from the 2006 LA refundable child Care Credit Wks, line 11. I have a simple return with TP wages of \$12500 and SP wages of \$12500. I have one dependent with \$3000 of child care expenses. The fed credit is \$281 because it is limited to federal tax. The LA credit, on line 11 of the 2006 LA refundable child Care Credit Wks, is \$225.

The calculation for the refundable child care credit and for the nonrefundable child care credit are entirely different. Additionally, a taxpayer can either have a refundable or a nonrefundable child care credit, but not both. The 2006 Nonrefundable credit does request the amount from Federal Form 1040, Line 48 or Federal form 1040A, Line 29. That amount should actually correspond to line 11 on the face of the return. It has no connection to Line 11 of the Refundable child care credit. In your scenario, the tp and spouse have income of \$25,000. As long as the income amounts are classified as earned income and the other federal guidelines are met, the taxpayer would be entitled to a refundable child care credit. The Louisiana refundable child care credit in this instance is \$225.

## E-FILE MANDATE

The Governor signed SB 190 which will require tax preparers who prepare more than 100 state individual returns during any calendar year be required to file electronically as follows:

30% of the returns due on or after January 1, 2008 60% of the returns due on or after January 1, 2010 90% of the returns due on or after January 1, 2012

Additionally, it appears that the secretary may require electronic filing of tax returns or reports under any of the following circumstances:

The taxpayer is required to pay electronically.

The report is required for dedicated fund distribution.

The return is a composite return filed by a professional athletic team.

## List of pensions exempt from Louisiana tax

I am furnishing you with the List of pensions exempt from Louisiana tax. These exemptions are usually input on the Schedule E of the IT540. I hope that this information will help.

Attached below is the link to the publication, ***Credits, Exemptions, Exclusions, and Deductions for Individual and Corporation Income Tax, Corporation Franchise Tax, Inheritance Tax, and Gift Tax***. Exempt pension items are found on page 79 of the PDF.  
[http://www.rev.state.la.us/forms/publications/40058\(3\\_06\).pdf](http://www.rev.state.la.us/forms/publications/40058(3_06).pdf)

Do you know yet if the Federal Income Tax Deduction Computation Worksheet will still be applicable for the 2006 tax year?

Yes. Act 25 of the 1st Extraordinary Session of 2006 allows the increased federal income tax deduction for all casualty losses. In keeping with that legislation, the Federal Income Tax Computation Worksheet will remain as part of the forms. Additionally, this Act does not have a sunset provision

Will we support the imperfect return?

Yes we will.

I have a question.

1. The instructions for Resident Federal Income Tax Deduction Computation Worksheet says that Act 25 expended the casualty loss relief to include all incurred federal casualty losses. Does this mean that losses for Hurricane Wilma now qualifies . If so the line instruction for 2B states only to remove the amounts for Hurricanes Katrina or Rita.

Acts 25 of the 1st Extraordinary Session did expand the federal income tax deduction to include all casualty losses. If a taxpayer incurred a casualty loss, regardless of how it was incurred, the taxpayer can increase the amount of his federal income tax deduction by the calculations found on the Federal Income Tax Deduction Computation Worksheet (FITDC). The vendor may not have the correct version of the 2006 return. Our version does not state that the casualty loss must be through Hurricanes Katrina or Rita. The only factors that Hurricanes Katrina and Rita play would be for disaster relief credits. Those credit are strictly associated with the hurricanes.

The version of this form/worksheet that is posted on your website (draft instructions from 8/29/06) does include the verbiage regarding the hurricanes (Question 2B). The verbiage was removed from the instructions though. If there is a new version, could you please provide a copy of the form (worksheet) and instructions? Thank you.

8/29 is an old version. There have been some changes and the new version will posted in a few days.

I have a quick question about LA E-file registration. When a tax preparer registers for E-filing on the LA DOR Web site, do you send him an acknowledgement? How does he know when he is set up for LA E-filing?

We do send e-mails to those which have registered. The tax preparer can begin e-filing returns as soon as he has completed his registration. He does not have to wait on the e-mail. If he does not receive the e-mail within 2 days he should contact us. The taxpayer does not have to register annually. It is a one time requirement.

I have question regarding the new LA refundable child care credit Wks.

1. When a part year LA return is filed and there are eligible qualified expenses, do we prorate the taxpayer's and spouse's earned income on lines 4 and 5 of the child care credit Wks or do we still use the full federal number?

The earned income should be only for LA sourced income -- the same as the expenses.

Should we be deducting the dependent care benefits from Line 3 of the Refundable Child Care Credit Worksheet?

The Federal Form 2441, Child and Dependent Care Expenses, does apply to both child care expenses and dependent care expenses. However, Act 495 of the 2005 Regular Legislative Session specifically limits the refundable and nonrefundable credits to the extent that they apply only to child care expenses. If the total expenses include both child care and dependent care expenses, the dependent care expenses must be omitted.

We have a customer claiming that they should be allowed to efile extension requests through Oct 16, 2006 (making the due date April 15, 2007) for tax year 2005 returns. Is this possible? Yep. The customer was asking to efile the extension. Also, they will have to paper file the eventual return, as IRS will take their system offline around Oct 16 for updating to the next year. Thanks for the information

Yes, it is possible that an individual income tax return for 2005 can be extended past the "due date" of October 16, 2006, making the extended due date April 16, 2007.

The 10/16 "due date" is correct. However, if the extension is not filed prior to that date, we cannot allow the extension of time to file until 4/16/07. There must be some proof that an extension was filed prior to 10/16.

However, there is no ability to **e-file** the extension, as indicated in the original request, correct ? The extension request can be filed on our website for the Louisiana return.

I have a question regarding Schedule E, line 4 H. The generic record only allows 1 line item for "other nontaxable income". We have clients who filed with more than 1 source and they received a notice and had their return held until a statement was submitted with the source names. Should returns with more than 1 nontaxable income source be paper filed or will processing automatically hold the return and submit a notice requesting a statement? If it's the latter we can issue a diagnostic explaining that the return will be held until a statement is verified. We would like to update our program for 2005 and would have to do that today so If I could receive a response soon, it would be greatly appreciated.

The field you are referring to is a 20 byte count field, it is possible to input all or part of the names there. If there are multiple sources the return can be electronically filed but a notice will be sent to the taxpayer to get the information needed to process the return. A diagnostic would be good. I hope this answers your question.

## LCPA TAX ALERT FOR SEPTEMBER 25, 2006

When responding to or commenting about this message, please reply directly to [asuffrin@lcpa.org](mailto:asuffrin@lcpa.org) (do not use the reply button on your toolbar).

### IRS GUIDANCE ADDRESSES LRA GRANTS

The IRS has issued the following Q&A to provide important guidance on the handling of Louisiana Recovery Authority (LRA) grants.

**Q:** How do individuals treat grants in the maximum amount of \$150,000 that the Louisiana Recovery Authority (LRA) and the Mississippi Development Authority (MDA) make to compensate them for the damage to or destruction of their primary homes by Hurricane Katrina?

**A.** Individuals who received grant payments from the LRA and the MDA to compensate them for the damage to or destruction of their primary homes by Hurricane Katrina generally will not be required to include the grant proceeds in gross income.

The recipient of the LRA or MDA grant payment must reduce the amount of any casualty loss attributable to the damaged or destroyed primary residence by the amount of the LRA or MDA grant payment. In addition, the recipient must reduce his or her tax basis in the damaged or destroyed primary residence by the amount of the LRA or MDA grant payment as well as by the amount of the allowable casualty loss deduction attributable to the damaged or destroyed primary residence. If the recipient repairs the damaged primary residence, the cost of repairs ordinarily is capitalized and added to the recipient's tax basis in the damaged residence. For more information on determining your adjusted basis, see Publication 530, Tax Information for First-Time Homeowners; Publication 551, Basis of Assets; Publication 4492, Information for Taxpayers Affected by Hurricanes Katrina, Rita, and Wilma; and, for taxpayers affected by Hurricane Katrina, Form 982, Reduction of Tax Attributes Due to Discharge of Indebtedness (and Section 1082 Basis Adjustment).

If the LRA or MDA grant payment to compensate for damage to or destruction of the primary residence and/or insurance proceeds (and any other form of compensation for the damaged or destroyed residence) exceed the recipient's adjusted tax basis in the damaged or destroyed residence, the recipient has realized gain for federal income tax purposes. However, because the damage or destruction is considered an "involuntary conversion" of the residence for federal income tax purposes, the recipient may ordinarily defer reporting any gain if the cost of the repairs or the replacement residence is at least as much as the compensation received for the damage (including the LRA or MDA grant to compensate for damage to or destruction of the primary residence and/or insurance proceeds), and if certain other conditions are met. For more information, see Publication 547, Casualties, Disasters, and Thefts; Publication 4492, Tax Information Related to Hurricane Katrina; and Form 4684, Casualties and Thefts, and Instructions.

If the primary residence is destroyed, the destruction may be treated as a sale for purposes of the tax provisions governing the exclusion of gain from the sale of a principal residence, and gain may be excluded up

to \$250,000 (\$500,000 for certain situations involving joint returns), if certain conditions are met. Additionally, because the destruction is considered an involuntary conversion of the residence, any gain in excess of the \$250,000/\$500,000 limitation may also be deferred by buying similar or related replacement property, if certain conditions are met. For more information, see Publications 547 and 4492, and Form 4684 and Instructions.

The recipient of LRA or MDA grant payments to compensate for the damage to or destruction of the primary residence (and any other compensation for the damaged or destroyed residence) must reduce his or her "cost" basis in any replacement residence by the amount of any deferred gain from the damaged or destroyed residence.

To review the complete list of FAQs for Hurricane Victims, please click on the following link:

<http://www.irs.gov/businesses/small/article/0,,id=156144,00.html>

Can you tell me if LA is going to make adjustments for this with regards to the federal tax adjustment, or the basis of any casualty losses?

Hear is the deal, because we piggy-back the feds, any adjustments made to the federal return (e.g. amending to take back or reduce casualty loss) will require the t/p to amend with us. If amending casualty loss (reducing it) occurs, then t/p must amend and adjust their FIT deduction if t/p modified it via the FITDC worksheet.

Also, to the extent the funds will not be in Fed AGI, then not taxable to LA.

I was looking on the LA website for information regarding the further extension to file the 2005 return. I can't seem to find any information on this.

The Department will be issuing a press release and a RIB to address this situation.



2006 extensions.doc

When will the nonresident record layouts be released to the web site?

The non resident should be out there soon. Hopefully by the end of this week.

I have the following questions.

### **Background:**

Title XII of the Pension Protection Act includes a number of reforms to the charitable contribution rules.

**Issue 1:** IRA distributions donated directly to charity may be tax-free up to \$100,000 for 2006 and 2007 for each year.

Under pre-2006 Pension Act law, there was no provision allowing the tax-free distribution from an IRA where the distribution was donated to a charitable organization. Under the 2006 Pension Act, a taxpayer may exclude from gross income an amount not exceeding \$100,000 per taxpayer, per taxable year, for distributions from an IRA distributed directly to a charitable organization. The funds must be received directly by the charity – no intermediaries can receive the distribution and it remains nontaxable. In effect, the taxpayer receives an above the line deduction for the amount donated to charity, and the AGI limitation for contributions is lower by the nontaxable IRA distribution. The IRA distribution would be shown on the federal return as a gross amount only. This section of the Pension Protection Act, section 1201(a), amends the IRC 408(d)(8), dealing with the taxability of IRA distributions.

Question: Will [Louisiana](#) conform to the Pension Protection Act, specifically Section 1201(a). If not, on which form(s) schedules do you want the difference reported?

**Issue 2:** Qualified conservation contributions of capital gain property are subject to a 50% of AGI limitation, with farmers and ranchers allowed a 100% AGI limitation, and are allowed a 15 year carryover.

A “qualified conservation contribution” is defined as a contribution of a qualified real property interest to a qualified organization exclusively for conservation purposes. Under pre-2006 Pension Act law, qualified conservation contributions of capital gain property were subject to the same percentage limitations and carryover rules as other charitable contributions of capital gain property (30% AGI). The new provision in the Pension Protection Act section 1206(a)(1) amends IRC section 170(b)(1)(E), dealing with charitable contributions and gifts. This provision also only applies to such contributions made during tax years 2006 and 2007.

Question: Will [Louisiana](#) conform to the Pension Protection Act, specifically Section 1206(a)(1).

If not, is there any special reporting requirement? Is there any reason why the affected contributions would not be treated as they were in the prior year, subject to the old limitation (30% AGI)?

[The calculation of the Louisiana income tax returns, IT-540, IT-540B, and IT-540B-NRA, begin at the point of federal adjusted gross. Under the provisions of R.S. 47:290, we piggyback the federal return, which allows us to conform to federal law and incorporate any modifications it relates to individual income tax.](#)

Assuming line 7A has an amount, and a casualty loss is being claimed, is line 7B simply line 7A minus the casualty loss?

[No. Line 7A is the amount of the Alternative Minimum Tax \(AMT\) that appears on Federal Form 1040, Line 45. If the amount of AMT is unchanged, line 7B will be the same amount. For a few exceptions, a recalculation of AMT is required.](#)

[If the AMT is required to be recalculated, line 7A should indicate the amount from Federal Form 1040, Line 45, and line 7B will indicate the amount of the recalculated AMT.](#)

I guess my question is how do we get the recalculated amount. Your answer states "except for a few exceptions". What are those exceptions. The instructions are not very helpful regarding this.

No.

It appears that in very few situations, (when t/p has a great deal of passive income) that the AMT must be recomputed when removing the casualty loss.

If that is the case, then the recomputed AMT is the amount for line 7B

I have one more question regarding the instructions.

Schedule E Line 4J. In the instructions it states to attach a copy of your official orders. Can a return with an amount in 4J be e-filed? If so, what would the customer have to do?

Yes the return can be e-filed. If the copy is needed it will be requested.

In March of this year it was decided by LA that the Sept. 15, 2005, and Jan 15, 2006 installment payments for 2005 will be credited back to Sept 15, 2005 even if those payments are made as late as Aug 28, 2006 for hardest hit Katrina areas. With the following bulletin, is it now assumed that the Sept. 15, 2005 and Jan 15, 2006 payments for 2005 will be credited back to Sept 15, 2005 even if those payments are made as late as October 15, 2006?

The press release dated August 28, 2006 addressed issues with estimated payments. A link below is attached to that press release.

<http://www.revenue.louisiana.gov/sections/publications/viewrelease.asp?id=177>

This most current press release, dated October 3, 2006, is really addressing the extension process if a taxpayer needs to apply for an extension for the 2005 year. Addressing the extension process is not modifying our position on estimated payments.

Will you please provide us information about LA State ERC's ( Error Rejection Codes ) ?

We tried for that but didn't find anywhere on LA State Site

The information you are requesting can be found in the e-file handbook. The web address is You can now register on our website. The web address is:

<http://www.revenue.louisiana.gov/sections/eservices/default.asp#fsef> Then click on [Electronic Filing Handbook for Tax Professionals](#)

We will accept the imperfect returns from IRS

According to the link, [http://www.rev.state.la.us/forms/misc/DisasterTaxRelief\(CLI\).pdf](http://www.rev.state.la.us/forms/misc/DisasterTaxRelief(CLI).pdf), Louisiana conforms to qualified hurricane distributions, loans from qualified plans, and repayments of qualified hurricane distributions. On lines 4b, 4c, 4d1, and 4d2 of the Resident Schedules, should only the taxable amount from federal form 8915 be reported? Are state retirement benefits and teacher retirement benefits considered "qualified hurricane distributions"?

All distributions from LASERS, Teachers -- etc STATE retirement systems are not subject to LA tax period. Thus, if any of the distribution from one of these entities is in federal AGI, then it should be excluded on the appropriate line within Schedule E.



I apologize if I am not completely understanding your answer. My specific question, is, that for the federal return, if the taxpayer is filing form 8915 (hurricane victim), then only 1/3 of the "qualified distribution" is taxable and included in the federal AGI. So in that case, the entire distribution would be reported on 1040 line 16a, and only one third of it would be reported on line 16b. On the Louisiana return, on lines 4b,c,d1, d2, do you want only the 3<sup>rd</sup> reported that was included in AGI on the federal return? Or do you want the entire amount that was reported on line 16a?

Whatever amount is on Line 16b of the 1040 (or Line 12b of the 1040A), is included in Federal Adjusted Gross Income (Fed AGI) which appears on Line 37 of the 1040 (or Line 21 of the 1040A). If the amount on Line 16b (or Line 12b) is derived from one of the pensions or annuities that are considered exempt income for us, in this case, from LASERS, Teachers Retirement, Federal Retirement, etc., only that amount can be excluded on the appropriate line on Schedule E. Any amount that appears on 16a of the 1040 (or Line 12a of the 1040A) does not enter into the calculation of Fed AGI and should not be considered.

The instructions for the IT-540 and the IT-540B say that if line 15c(LA tax withheld) is greater than ten percent of Federal AGI a copy of the Federal return must be attached. Does this mean the full Federal return or just pages 1 and 2 of the Federal return.

We generally mean pages 1 and 2 of the Federal return when we request a copy of the Federal return.

I have a child care credit question.  
when you have a Part Year or Non resident return, what amount do you want on line 13 of the 540B. The LA portion of federal child care credit or the total amount???

Is the LA credit going to be ratioed or specifically as applies to LA?  
We would want the LA portion -- which could possibly be 100% of the total fed child care -- depending on the t/p's circumstances.

So will the LA portion be determined by income ratio, or other?

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A couple of examples:

Non-resident  
All income is earned in LA = 100%  
Taxpayer income is LA, spouse is MS = Ratio income?  
Taxpayer has "C" loss in LA Spouse has MS wages = No LA child care?

Part year resident  
Use income ratio?

We would want the LA portion -- which could possibly be 100% of the total fed child care -- depending on the t/p's circumstances.

My thought would be La child care expense to total child care expense.

You told us that LA doesn't allow the dependent care benefits, do they need to be excluded from amounts shown for line 2 of the worksheet or can they be deducted from the total on line 3 of the worksheet (like the Fed form 2441 does)? Thanks

Federal Form 2441 accommodates Child and Dependent Care Expenses. Our form only allows for child care expenses.

Exclude the dependent care expenses from Line 2.

In reviewing the draft version of the 2006 Federal Form 2441, there does not appear to be a deduction to exclude dependent care expenses on Line 3.

If there is an amount in box 10 of the federal W-2, am I correct in assuming that this amount will reduce any qualifying expenses for calculating the Louisiana Refundable Child Care Credit.

If it would reduce for feds, would reduce for us.

For efilg, since LA is now accepting the Federal PIN for 2007 efilg, should we still be printing the LA8453 or not print it?

You should maintain the Federal form 8879 with the return if the IRS PIN is used .

Let me clarify our question. I apologize if my question was not clear.

Will software developers be required to add/support the LA – 540 Line 15A New worksheet for refundable child care credit fields in our software?

If LA requires us to support, does that rule (mandate) apply to both online generated returns as well as professional product software?

If support is NOT required, would you like us to disqualify the return from being efiled to you or do you need supporting documentation mailed in by the client?

Yes, software developers will be required to add/support the LA – 540 Line 15A New worksheet for refundable child care credit fields in our software.

Yes, that rule (mandate) does apply to both online generated returns as well as professional product software.

## Test 5

Also on the LA. underpayment work sheet, they put the inventory tax credit as a payment in the 4<sup>th</sup> quarter. I believe the instructions state this is a reduction on line 1 of the worksheet.

If referring to the calculation that arrives at Lines 1 and 2 (under Section 1) on the worksheet, he is correct that **inventory tax credit cannot be used as a payment**. The instructions for Line 1 (under Section 1) indicate that the refundable and nonrefundable credits are applied on Lines 2 and 3 in order to determine that amount of income tax. Those same instructions apply the same method for Lines 2 and 3 for Line 2 (under Section 1).

I have a question regarding the LA Federal Income Tax Deduction Worksheet.

The text for Line 2B of the worksheet says "From your total itemized deductions (Line 2A above) remove the amount of your casualty loss associated with Hurricanes Katrina or Rita", but the text for Line 2B.2 says "Total casualty loss from Line 19 and/or Line 27 of your 2006 Schedule A (Form 1040).

Which is correct? Do I use the total Federal casualty loss in calculating Line 2B, or only the Katrina or Rita-related loss?

The casualty loss from Line 19 and/or Line 27 is correct. Act 25 of the 1st Extraordinary Session of 2006 allows the recomputation of the federal income tax deduction for any casualty loss.

Am I correct in assuming that a full year Nonresident does not qualify for the refundable credit.

Yes, that is true

I hope you can help me with a question I have about the START program...I understand that up to \$2,400 (or \$4,800 for mfi) of START contributions can be deducted annually from taxable income. I also understand that if somebody has a START account but does not contribute to it in a given year, they can carryforward the \$2,400 (or \$4,800 for mfi) to the following year.

I understand this to mean that if I had a START account last year, am single, and did not contribute anything to my account last year, then I could deduct up to \$4,800 in START account contributions this year. Is this correct?

How about if I do not make any contributions this year either? Can I carryforward last year's \$2,400 plus this year's \$2,400 and thus next year deduct up to \$7,200 in contributions?

The answer is yes -- it can be carried forward as described.

Are there any limits? Or can it simply be carried forward forever (or until the law changes)?

At this time, there is no time limit set in the law.